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Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
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1997 Annual Access ) CC Docket No. 97-149  
Tariff Filings )  
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**THE CHILLICOTHE TELEPHONE COMPANY, INC.'S  
REBUTTAL TO THE AT&T OPPOSITION TO DIRECT CASES**

The Chillicothe Telephone Company, Inc. (Chillicothe), by its attorney and pursuant to the Commission's Order in CC Docket No. 97-149<sup>1</sup>, hereby submits its Rebuttal to AT&T's Opposition to Direct Cases, filed with the Commission on September 17, 1997. In its Direct Case, Chillicothe provided the Commission with volumes of complete and accurate supporting data which served as the basis for its Cash Working Capital (CWC) calculation. Chillicothe, using the Commission's Simplified Formula alternative<sup>2</sup>, determined that its weighted net lag period is 46.68 days. AT&T, relying upon its own, incomplete calculations<sup>3</sup>, compared Chillicothe's result to the "industry standard" of 15 days, a standard which Chillicothe determined was

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<sup>1</sup> Order Designating Issues for Investigation, Memorandum Opinion and Order on Reconsideration, DA 97-1609 (Comm. Car. Bur., released July 28, 1997 and Public Notice indicating grant of extension of filing date, DA 97-1724 (Comm. Car. Bur., released August 13, 1997.))

<sup>2</sup> See 47 CFR § 65.820(e).

<sup>3</sup> AT&T initially alleged that Chillicothe used a 57.2 lag day period. See Petition of AT&T Corp. on Rate of Return LEC Tariff Filings, filed June 23, 1997, at Attachment A.

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not reflective of its operations<sup>4</sup>, and attempts to characterize the difference as an overstatement by Chillicothe. Chillicothe has provided the Commission with significant data which justifies its use of the alternative Simplified Formula and seeks the Commission's termination of this investigation to such effect.

Specifically, AT&T claims that Chillicothe has "failed to justify [its] protracted net lag period[]" and that "the Commission should require [it] to recalculate [its] revenue requirements using verifiable and accurate data to calculate lead-lag studies" (Opposition at p. 38). AT&T makes a related claim that Chillicothe has not justified its revenue lags which flow from the NECA common line settlement process. These erroneous claims are discussed below.

#### Chillicothe's Representative Period

AT&T focuses on the fact that Chillicothe has used a "representative three month" period (Opposition at p. 36) as evidence that its CWC calculation is flawed. In fact, Chillicothe uses a twelve month period for most of its lead-lag components. However, Chillicothe uses a three month period for

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<sup>4</sup> The Simplified Formula method which Chillicothe has opted to use was specifically kept in the rules to permit carriers to more accurately reflect their lag period. (See Order on Reconsideration, Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, 65 RR 2d 1719 (1989) at para. 14 holding "If, however a Class B carrier believes that the Standard Allowance Method is insufficient, it may elect to follow the Simplified Formula Method or perform a full lead-lag study.") (Emphasis Supplied).

certain components in the instance when such an analysis provides a satisfactory representation of an annual amount and conducting a full year analysis would be administratively burdensome. (As discussed below, such a result is permissible under the Commission's rules.) In order to properly correlate all components in its calculations, Chillicothe weights all dollars to an equivalent three month period. The majority of the components are based upon an annual amount and not a three month period.

As previously discussed, the Commission's rules specifically accommodate a period other than a full year; a factor in the Simplified Formula Method requires carriers to compute what percentage of a year is represented by their lead-lag calculation<sup>5</sup>. The Commission created the Simplified Formula Method, which contains the annualizing factor noted above, to reduce the burden on Class B carriers from having to complete full lead lag studies. The creation of the annualizing factor indicates that the Commission contemplated that carriers would use a period of less than a year as part of the simplification process. Thus, AT&T's argument that the use of a 3 month period as one component of Chillicothe's CWC calculation is improper, is off the mark.

AT&T further contends that "a lead-lag study is flawed when it uses old data" (Opposition at p. 36). In this respect, AT&T relies upon a Commission decision to claim that failure to use

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<sup>5</sup>See 47 CFR §65.820(e)(4).

current data violates Commission Requirements, Order to Show Cause, Ameritech Telephone Operating Companies, 10 FCC Rcd 5606 (1995). This case is easily distinguishable. AT&T's argument neglects to mention that the facts in that case concerned a carrier who was in possession of a less favorable current study and the carrier chose to use an older study to its benefit. In contrast, the study used by Chillicothe here is the most currently available lead-lag study.

Indeed, The Commission has specifically found that a cash working capital study which was still in use a decade after it was conducted can be "the best information available on [a] cash working capital requirement" and that its continued use is a "reasonable methodology".<sup>6</sup> In the cases where the Commission found that a lead-lag study was not current - - one of which AT&T relies upon in its Opposition - - there are generally intervening factors which significantly change the operations of a carrier (e.g. during the late eighties, certain Regional Bell Operating Companies' relied upon lead-lag studies which were conducted pre-divestiture.)<sup>7</sup> On the other hand, Chillicothe's Cash Working Capital Study is still current.

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<sup>6</sup> Memorandum Opinion and Order, Communications Satellite Corporation; Tariff No. 101..., 65 RR 2d 1054 (1988) at paragraph 30.

<sup>7</sup> See Order to Show Cause, Southwestern Bell Telephone Company, 10 FCC Rcd. 5306 (1995) at Attach. para. 12 (stating "...much happened to change Southwestern's operations between the period..." of its study in 1981 and the audit period of 1988.) See also Order to Show Cause, Ameritech Telephone Operating Companies, 10 FCC Rcd 5606 (1995). (noting "Much happened to change Indiana Bell's operations between 1980 and 1988.")

Chillicothe has not experienced a dramatic change in revenues or expenses since it last conducted its lead-lag study and the results of its previous study reflect its current position, as required by the Commission<sup>8</sup>. In addition, it would be impractical and onerous for Chillicothe to conduct the study frequently. Chillicothe's operations result in a weighted lead-lag period of greater than 15 days - - in part, because of its internal policy to pay expenses as soon as they are incurred - - and an overly frequent undertaking of a study which indicates the greater lead-lag period would be of limited use<sup>9</sup>.

#### NECA Common Line Settlement Process

AT&T asserts that the NECA Common Line Settlement Process "normally should take about 60 days" and claims that Chillicothe has not explained its revenue lags related to the NECA process or why Chillicothe's lag period is different from what AT&T has determined is "normal." Chillicothe has provided the information to the Commission and the "normal" 60 day period that AT&T has developed is inaccurate for blanket application to all NECA participants.

In its Direct Case, Chillicothe provided the Commission with 1) an entire year of month-by-month dollar-day studies; 2) NECA

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<sup>8</sup>See Initial Decision, Docket 19129, 64 FCC 2d at para. 881.

<sup>9</sup> The Common Carrier Bureau has recognized that the expense of conducting a cash working capital study may sometimes outweigh its benefit. Memorandum Opinion and Order, Annual 1989 Access Tariff Filing, 4 FCC Rcd 413 at para. 48 (1988).

generated Forms EC3050 and EC2053 which support the month-by-month analyses; 3) internal accounting ledger sheets indicating deposit patterns; and 4) a one page summary of all of these items which indicates the calculation of the net lead-lag period. Chillicothe has fully explained and has provided detailed evidence - - including working papers - - in support of its lead-lag period for NECA Common Line payments. AT&T need merely refer to Chillicothe's Direct Case and the supporting documents contained therein to find full justification for the NECA Common Line Settlement payment figure.

Furthermore, AT&T's unilateral and unsubstantiated assertion that a 60 day period is "normal" neglects to incorporate the annual true-up to adjust a carrier's monthly settlement. This settlement is based upon pro-forma cost studies, which are then trued-up to the actual historic costs, which are not available until the end of a year. Chillicothe's Direct Case indicates that this factor was significant in determining it's lead-lag period.<sup>10</sup> The 60 day "normal" period for NECA settlement is not an industry standard but rather a random estimate that AT&T seeks to have applied in direct contrast to empirical evidence.

#### Chillicothe has Complied with Commission Requirements

Wherefore, Chillicothe, having provided full and complete justification and supporting evidence for its Cash Working

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<sup>10</sup> See Chillicothe's Direct Case, CCL Settlement and NECA Adjustment data, for the month of April. This data indicates that for the month of April alone, the CCL adjustment total was \$158,000 resulting in a 61.7 million dollar-day calculation.

Capital calculation, which remains an accurate methodology for determining its current requirements, and having rebutted all of AT&T's oppositions to its filings, seeks the Commission's termination of this investigation, as it pertains to Chillicothe.

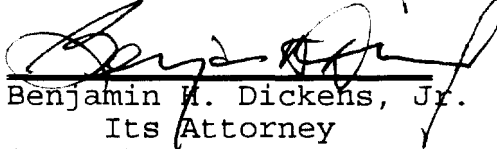
In AT&T's initial petition, it erroneously alleges that Chillicothe's CWC calculation has a \$55,518 effect on interstate income. AT&T's incorrect allegation against Chillicothe pales in comparison to the other claims that AT&T is making in this proceeding, which involve the Regional Bell Operating Companies and several other large carriers and are based upon allegations of \$400 million common line rate cap overstatements, \$60.7 million PCI overstatements for equal access costs, \$4.5 million OB&C exogenous cost inclusions and \$19.4 million total Cash Working Capital overstatements. As long as Chillicothe remains a subject in this investigation, it must continue to incur the additional burdens of maintaining separate accounting systems, filing additional suspensions for subsequent tariff filings and incur the expenses related to such burdens, including multiple filing fees with the Commission.

In summary, Chillicothe has provided the Commission with volumes of its internal accounting data which support and justify its correctly calculated Cash Working Capital Requirement. Chillicothe accordingly seeks the Commission's termination of this investigation to the extent that it applies to Chillicothe's Cash Working Capital requirement.

Respectfully submitted,

**The Chillicothe Telephone  
Company, Inc.**

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September 24, 1997



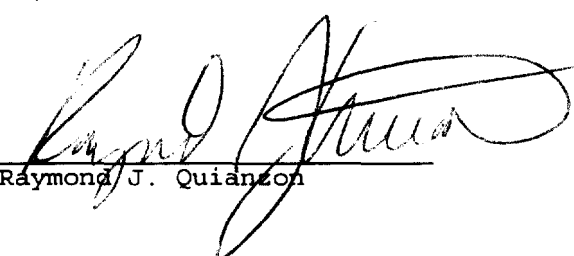
**CERTIFICATE OF SERVICE**

I hereby certify that I am an employee with the law firm of Blooston, Mordkofsky, Jackson & Dickens, and that on this 24th day of September, 1997, I caused to be mailed via first class United States mail, postage prepaid, a copy of the foregoing "**Rebuttal to the AT&T Opposition to Direct Cases**" to the following:

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